RNI No. 53481/92 ■ FARIDABAD/145/2020-22 BPC Faridabad ■ Date of posting: Tue, Wed & Thursday

businesstoday.in

CASH TO GDP RISES

THE VAX DEADLINE

INDIA TODAY GROUP

Business Today

August 8, 2021 ₹100

INDIA'S FALLEN BILLIONAIRES

AN INSIDE TRACK ON HOW SOME OF THE BIGGEST BUSINESS FAMILIES LOST THEIR FLAGSHIP COMPANIES UNDER IBC

VISIT…

In the second week of March, Venugopal Dhoot, 69, who built India's first homegrown consumer durables company, Videocon Industries Ltd (VIL), looked distraught while walking out of a PMLA (Prevention of Money Laundering Act) court in Mumbai. The court granted him bail but asked him to surrender his passport.

Dhoot, whose personal wealth was $1 billion-plus in 2015, has lost all major businesses — consumer durables, telecom, oil exploration — to insolvency. In August 2019, the National Company Law Tribunal (NCLT) consolidated resolution processes for all 13 group companies, which had total admitted claims of ₹64,838 crore. In October 2020, the Dhoot family offered lenders ₹30,000 crore to withdraw the insolvency proceedings. But the creditors decided to sell the assets to a Vedanta group company, Twin Star Technologies, for ₹2,962 crore, taking a haircut of over 95 per cent. However, the National Company Law Appellate Tribunal (NCLAT) stayed the bid.

Dhoot is among the hundreds of Indian businessmen who have lost their companies after the introduction of the Insolvency and Bankruptcy Code (IBC) in 2016. The code replaced complex corporate insolvency laws and mandated strict resolution timelines. Lenders have so far taken over 4,300 companies to NCLT for loan default.

While high-cost expansion funded by debt has been the biggest reason for most of these corporate failures, another factor has been diversification into unrelated areas. A study of the reasons for their collapse offers lessons in corporate governance, the biggest being that adding capacity at the right time, ability to sense market dynamics and understanding technology are important for running a successful business. And, while debt is important for growth, it has to be watched carefully lest it become unsustainable.

Take Brij Bhushan Singal's sons, Sanjay and Neeraj, who ran Bhushan Steel (BSL) and Bhushan Power and Steel (BPSL) separately. Both have lost around ₹55,000 crore wealth. The two companies were part of the Reserve Bank of India's (RBI's) first list of 12 big defaulters that were sent to IBC after their debt became unmanageable. Tata Steel acquired BSL for ₹35,200 crore in 2018 while JSW Steel took over BPSL for ₹19,350 crore in March 2021. The siblings are being investigated for money laundering and fraud too.

Anil Ambani, the world's sixth-richest person in 2008 with wealth of $42 billion, pleaded bankruptcy before a London court in September 2020. He lost the flagship Reliance Communications Ltd (RCom) and Reliance Naval and Engineering. Four other companies — Reliance Infrastructure, Reliance Power, Reliance Capital and Reliance Home Finance — had defaulted on loans before the Covid-19 outbreak but got relief for some time as the pandemic forced the government to suspend IBC until March 2021.

BT takes a close look at the dozen biggest business families that have lost most of their wealth/businesses or flagship companies since the IBC was implemented.

₹1.61 LAKH CRORE
Debt of Reliance Group companies in 2018

Reliance Group: Heavy Damage

Anil Ambani, the younger son of Dhirubhai Ambani, was known for living a luxurious life — appearing with celebrities, hobnobbing with top politicians and travelling on private jets. In 2007/08, when elder brother Mukesh Ambani gifted wife Nita a corporate jet worth ₹250 crore, Anil bought a super luxury yacht for wife Tina for ₹400 crore.

That was then. In September 2020, appearing virtually before the High

PHOTOGRAPH BY RACHIT GOSWAMI

Promoter/group:
Anil Ambani/Reliance Group

Companies: Reliance Infrastructure, Reliance Power, Reliance Capital

Lost control of: Reliance Communications, Reliance Naval and Engineering, Reliance Home Finance, Reliance Commercial Finance

Peak market valuation: ₹2.36 lakh crore in FY08-end

Current market valuation: ₹6,238 crore (as on July 15)

Current debt: ₹72,774 crore (March 2020)

Reason for insolvency: Unrealistic expansion, miscalculation of market dynamics

Insolvency claims admitted: ₹85,600 crore for RCom and its subsidiaries

Status: Resolution inconclusive due to spectrum dues

Court in London in a debt repayment case, he declared he owned no significant assets and his expenses were borne by wife Tina and his family. When the court asked him to declare personal assets and credit card details, he said he had sold all his jewellery to pay legal fees. He tried to convince the court that he leads a simple life, drives one car and owes money to his family. Earlier, in May 2020, the court had ruled in favour of the appellants — three Chinese banks which had lent to RCom — but Ambani failed to pay the $716 million that RCom had reportedly taken on the basis of his personal guarantee. The banks are trying to take possession of Ambani's overseas assets.

That is not all. State Bank of India (SBI) has also initiated personal bankruptcy proceedings against Anil Ambani. In August 2020, the Delhi High Court stayed the resolution process initiated in the NCLT. The Supreme Court later refused to vacate the stay. Ambani requested the Delhi High Court to include Chinese banks in his legal challenge to SBI's proceedings in India.

The seeds of the crisis lie in the group's debt-raising spree to build capital intensive projects in power, defence and infrastructure sectors. The group debt more than trebled from ₹41,892 crore in March 2008 to ₹1.61 lakh crore in March 2018. The once flagship telecom business, RCom, also heavily indebted, faced a major disruption when Mukesh Ambani's Reliance Industries launched free voice and low-cost data services under the Jio brand in September 2016. RCom tried to sell some assets but defaulted on debt in 2019. It was taken to IBC. The shares, which had peaked at around ₹800 in March 2006, fell below ₹1 in 2019. Reliance Naval and Engineering also failed to service loans and filed for bankruptcy. Reliance Home Finance and Reliance Commercial Finance, subsidiaries of Reliance Capital, too, defaulted on loans. Banks started the debt resolution exercise for both companies as per the Reserve Bank of India's June 7, 2019, circular on Prudential Framework for Resolution of Stressed Assets Directions 2019. These companies will get new owners soon. Cash-strapped Reliance Capital defaulted on term loans of HDFC Ltd and Axis Bank on October 31, 2020. Reliance Capital's total debt was ₹26,906 crore in March 2020.

The group has two more businesses, Reliance Power and Reliance Infrastructure. In mid-2020, Reliance Infrastructure declared a financial debt of ₹17,065 crore. Reliance Power defaulted on repayments to Axis Bank, Yes Bank and Lakshmi Vilas Bank due on January 31, 2020. Its total borrowings stood at ₹28,803 crore as on March 31, 2020.

In October 2020, Yes Bank initiated steps to attach Reliance Centre, the Mumbai headquarters of the group. The group is among the biggest borrowers of Yes Bank with a loan of ₹12,000 crore. The Enforcement Directorate (ED) had summoned Ambani in connection with the probe against Yes Bank founder Rana Kapoor in March 2020.

Ambani is making a last-ditch effort to be in the reckoning with the defence vertical. The ventures with Dassault Aviation and Thales of France are operational at Mihan, Maharashtra. The plan includes making components for Falcon 2000 jets and radars. A defence subsidiary, Reliance Armament, has submitted request for proposals for manufacturing light machine guns, sniper

rifles and other small arms worth over ₹6,000 crore. However, it has made little progress in showcasing these weapons and sending them for army trials, say sources.

The group did not respond to emails from *BT*.

Jaypee Group: Crisis Build-Up

The Jaypee Group, led by the 90-year-old founder, Jaiprakash Gaur, is struggling for survival. The Gaurs rose to fame when they constructed two huge dams, Sardar Sarovar and Tehri, in the 1980s. The group grew phenomenally between 2000 and 2010 riding on the realty and infrastructure boom. It invested ₹60,000 crore in real estate, power and cement. The combined revenues of three companies — Jaiprakash Associates (JAL), Jaiprakash Power Ventures (JPVL) and Jaypee Infratech — jumped 476 per cent to ₹27,925 crore in the seven years until FY2015.

The group has been in trouble for the last five-six years because of the heavy liabilities on its books. The major casualty in the group was Jaypee Infratech, which defaulted loans and filed for bankruptcy. Group revenues have more than halved to ₹13,560 crore between FY15 and FY20. The aggregate market value of the Jaypee Group companies, at around ₹7,030 crore (as on July 15), is one-seventh its March 2010 valuation of ₹45,951 crore, thanks to the debt, which touched ₹1.15 lakh crore in FY15 as the Gaurs bet on risky projects in roads, power, cement, power, real estate and hotels. Jaypee built India's first F1 track, Buddh International Circuit, in 2011, spending ₹2,000 crore. But the venue was not part of the global F1 calendar in 2014. Jaypee stopped paying lease dues. The Yamuna Expressway Industrial Development Authority cancelled the lease in 2019.

The troubles came to a boil when the RBI put the flagship Jaypee Infratech in its first list of defaulters. Its Yamuna Expressway project between Noida and Agra with township area of 25 million square metres was hit by a slowdown in the real estate market. Construction of apartments along the Noida-Greater Noida Expressway was halted in 2013 after the National Green Tribunal stayed construction within 10 kilometres of the Okhla Bird Sanctuary. The total admitted claims of the banks were ₹9,782 crore. Mumbai-based Suraksha Realty is set to bag Jaypee Infratech as part of the IBC resolution process.

The cement business also saw a dip in profits but the company kept adding capacity. The hotel business came under pressure due to declining occupancy. Electricity prices fell after the country added additional capacity, affecting JPVL. The Gaur family is now left with two struggling businesses — JAL and JPVL. JAL made a consolidated loss of ₹667 crore in FY21 while JPVL posted a profit of ₹281 crore. There is hope that the Gaurs can turn around these companies. An ICICI Bank-led consortium,

PHOTOGRAPH BY UMESH GOSWAMI

Promoter/group: **Shashi (left) and Ravi Ruia/Essar**

Companies: Essar Oil UK, Essar Power, Essar Ports, Essar Projects, Essar Shipping, mining in the US

Lost control of: Essar Steel, Algoma in the US, EPC Constructions India and Essar Power Jharkhand

Peak revenue: $27 billion in 2014/15

Current revenue: $14 billion

Reason for insolvency: Delay in project execution, poor cash flow

Insolvency claims admitted: ₹54,565 crore for Essar Steel

Status: ArcelorMittal Nippon Steel acquired Essar Steel for ₹42,000 crore

The Vanishing Billions

Kundapur Vaman Kamath, the former boss of ICICI Bank and the New Development Bank, has a simple explanation for why many of the erstwhile large business groups, led by well-known industrialists of the time, fell. The one big reason, the ace banker says, was that raising large amounts of debt to grow the businesses was seen to be the right thing to do at the time. Kamath, and many other bankers like him, have seen a number of these business groups set out a scorching growth pace backed by humongous amounts of debt, only to find themselves either at the wrong end of business cycles, or faced with withering demand. As these groups chased growth ambitions — often in unrelated areas — and borrowed to feed these plans, servicing these large amounts became unsustainable over time, causing several to default with the banks. In contrast, most successful corporate houses of today realise that piling on large amounts of borrowed money could be suicidal and had been cleaning up their balance sheets over time. In the early-2000s, companies began reducing their total debt-equity ratios from around 4.8:1 to 2.8:1 and, by the end of 2010, further to around 1.8:1.

But in the more recent past, something else changed. And dramatically so. The advent of the Insolvency and Bankruptcy Code (IBC), clearly one of the most important reforms witnessed in Corporate India in recent times, has meant that errant promoters of business groups, who recklessly chased growth ambitions on borrowed money, could end up losing control of their companies altogether. Gone are the days when, as a former finance minister had put it, promoters would come to borrow money from banks in modest cars, and later return in luxury vehicles to announce they were not in a position to pay back the loans. Today, promoters who default are ending up seeing their companies go to others through the National Company Law Tribunal (NCLT) process under the bankruptcy code. The endgame earlier was banks losing money, and defaulting promoters retaining control over their companies. Today, the fact that promoters can lose control of the companies they built over decades is bringing about a change in their behaviour.

Nevin John's cover story on India's fallen billionaires traces the journey of a few such prominent industrial groups, how they grew, the ambitions they chased, and their subsequent collapse. Many of these industrialists were poster boys of an earlier time, diversifying aggressively and betting on businesses which eventually came crashing down. Their stories provide important lessons to entrepreneurs about building businesses, and growing them responsibly.

This story apart, I would also urge you to read *Anand Adhikari*'s analysis of why, despite the demonetisation effort of 2016, India's cash-to-GDP ratio has been consistently growing since, and currently stands at 14.6 per cent. The story tracks the big cash drivers in the system despite the rise of digital payments, the challenges in infrastructure which are leading to increasing cash transactions, and the lessons from global markets.

Contents

August 8, 2021
Volume 30, Number 16

Cover by
NILANJAN DAS

6

The Point

Fuel Inflation Spooks Bond Markets

Petrol prices have crossed the ₹100 mark in almost all states. This has, in turn, affected bond markets, where yields have started rising in anticipation of higher inflation

8

Q4 Blip Can't Halt First Current Account Surplus in 17 Years

India posted a current account deficit of $8.1 billion, or 1 per cent of GDP, in the last quarter of FY21

26

Finance

Cash Splash

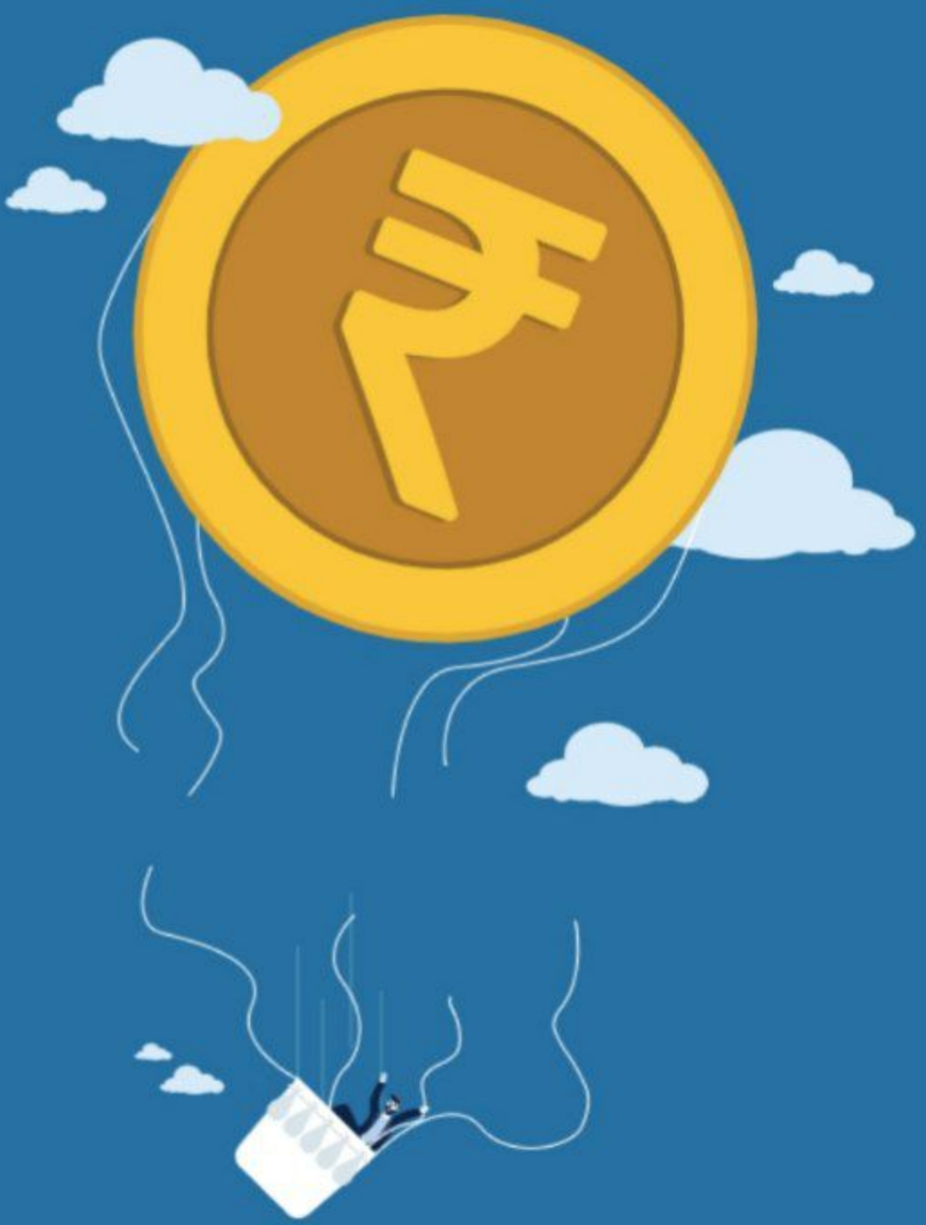
Why the cash in the system remains stubbornly high despite the rising number of digital payment options

12

COVER STORY

India's Fallen Billionaires

HOW A DOZEN LEADING INDIAN BUSINESSMEN LOST THEIR CROWN JEWELS TO UNSUSTAINABLE DEBT



ILLUSTRATOR BY RAJ VERMA

36

Industry

A Long Shot

The race to meet the December 31 deadline for vaccinating the country's 94-crore adult population against Covid-19 is fraught with challenges such as production-supply risks and vaccine hesitancy

44

Small Business, Big Stress

Government relief measures for MSMEs have benefited only a few players. A large number may be unable to survive the pandemic

50

Corporate

Champ in The Making

PharmEasy's deal to buy Thyrocare is the first-ever acquisition of a listed company by an Indian unicorn. Here is the story behind the miracle

56

Management

Welcome To The Team, Remotely

With the pandemic stretching on, companies are experimenting with ways to help new hires fit into the company culture in a virtual environment

62

Money Today

Be Your Own Investment Advisor

Nobody understands your situation better. So take charge of your finances, now

68

Investing for A Rainy Day

Safety and liquidity, and not returns, should be the primary concerns while creating an emergency fund

72

Network

Adhia's Yogic Side

Hasmukh Adhia has been pursuing his passion, yoga and meditation, and learning scriptures

74

Best Advice I Ever Got

"Never waste a crisis... Transform every single one into an opportunity"

Milind Kothari

businesstoday.in

STAY CONNECTED WITH US ON
www.facebook.com/BusinessToday@BT_India

FOCUS / An IMPACT Feature

From time to time, you will see pages titled "Focus", "An Impact Feature", or "Advertorial" in *Business Today*. These are no different from an advertisement and the magazine's editorial staff is not involved in their creation in any way.

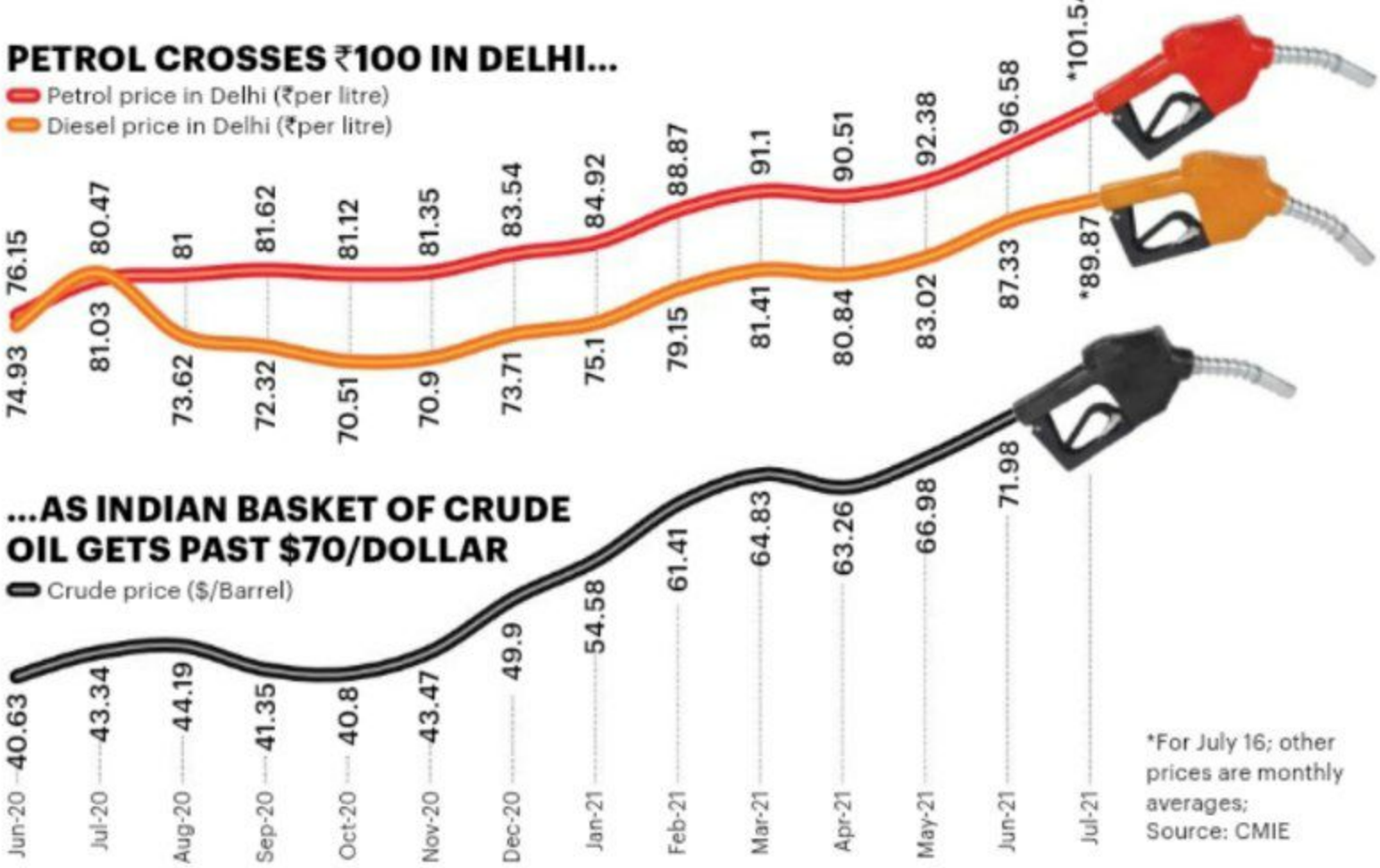
The Point

Fuel Inflation Spooks Bond Markets

PETROL PRICES HAVE CROSSED THE ₹100 MARK IN ALMOST ALL STATES. THIS HAS, IN TURN, AFFECTED BOND MARKETS, WHERE YIELDS HAVE STARTED RISING IN ANTICIPATION OF HIGHER INFLATION

By **SHIVANI SHARMA** | Graphics by **TANMOY CHAKRABORTY**

PETROL CROSSES ₹100 IN DELHI...

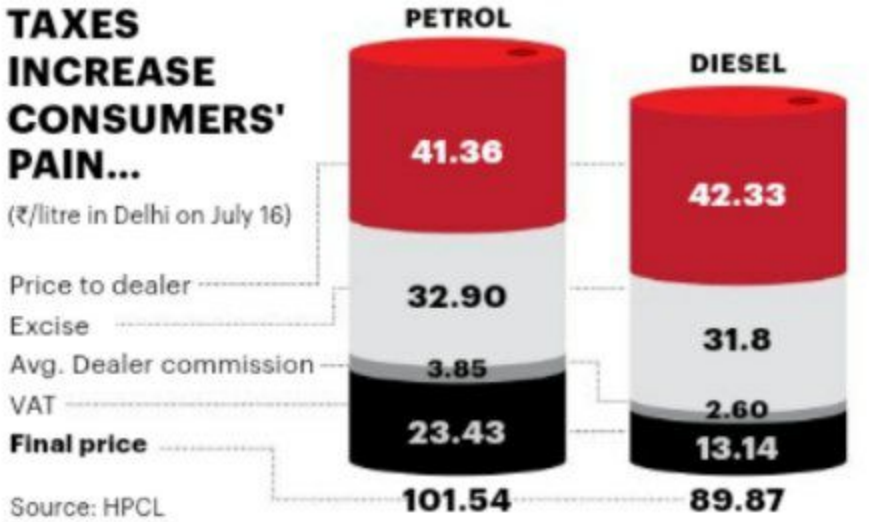


...AS INDIAN BASKET OF CRUDE OIL GETS PAST $70/DOLLAR

*For July 16; other prices are monthly averages;
Source: CMIE

TAXES INCREASE CONSUMERS' PAIN...

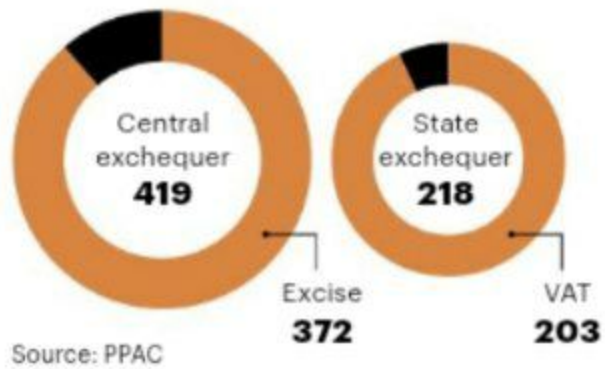
(₹/litre in Delhi on July 16)



Source: HPCL

...BUT HELP GOVERNMENT FINANCES BIG TIME

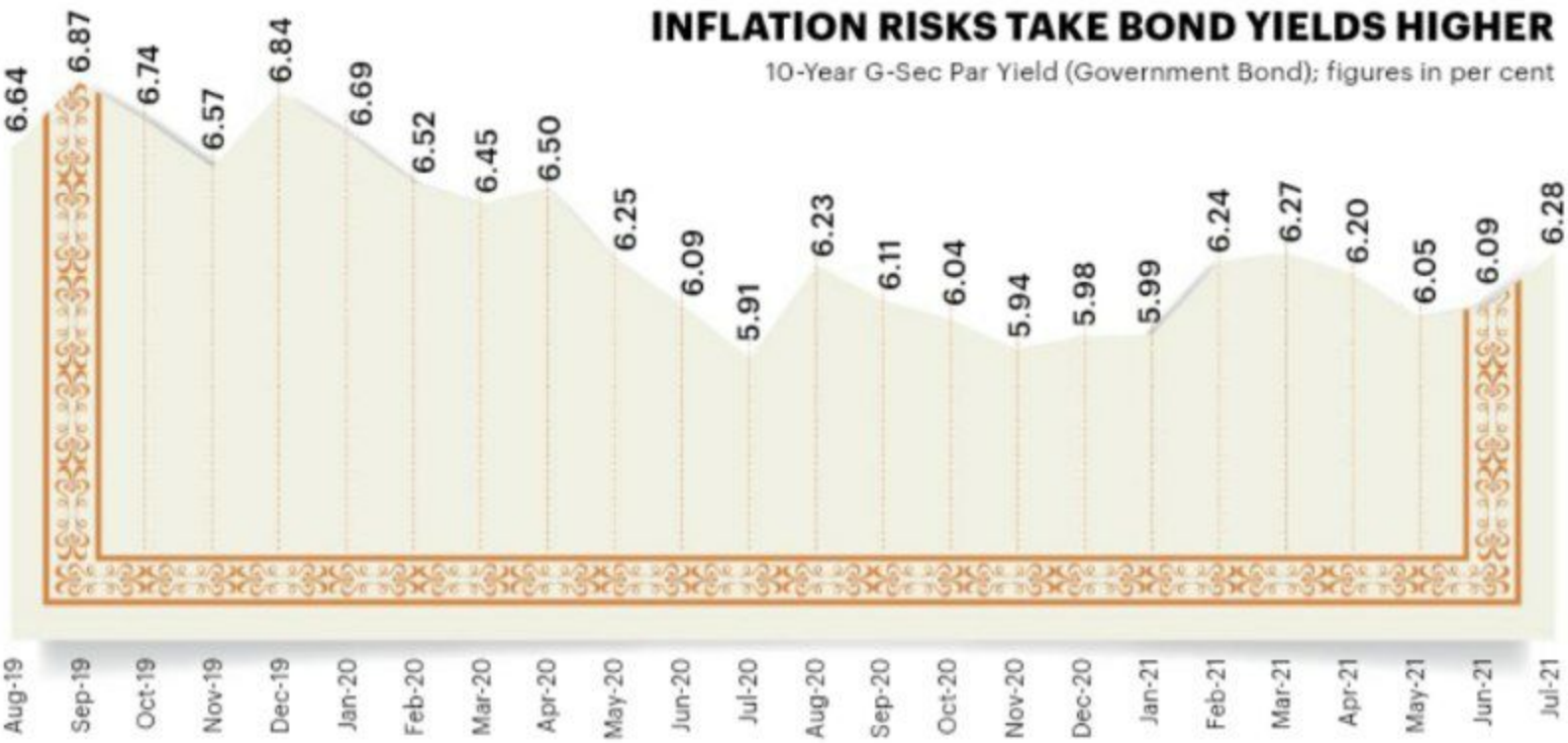
Revenue Earnings (₹ '000 crore)



Source: PPAC

INFLATION RISKS TAKE BOND YIELDS HIGHER

10-Year G-Sec Par Yield (Government Bond); figures in per cent



Source: RBI

INTERNATIONAL SOLAR ALLIANCE

"We want to make solar the most preferred energy option"

Ajay Mathur
Director General, ISA

The International Solar Alliance (ISA), the first treaty-based inter-governmental organization based out of India, was launched at the UN climate meet COP21 in Paris in 2015. ***Ajay Mathur*** *is the new Director General of the ISA after having been unanimously elected to succeed Upendra Tripathy. In an exclusive interview, he speaks on the challenges and opportunities that exist for the ISA where India has taken a leadership role, his plans to build capacity and outreach in the solar sector, and much more. Excerpts…*

Q Do you think the goal of One World, One Sun and One Grid and roping in $1 trillion investment is technically feasible to achieve? Also, given the constraints of energy storage in solar, don't you think this is too ambitious a target?

It is expected that possibly as early as the year 2022, the electricity from solar energy and batteries will be the cheapest electricity that we get in the world. After that point, it will become irrelevant to source electricity from any other source, particularly more expensive source. So, as we move ahead, the challenge will be, how do we provide round the clock electricity at the cheapest places. This is what we hope to achieve through the One World, One Earth and One Grid where the national grids of different countries are joined together in regional grids, which are joined to each other.

Q We would like to know from you what are the achievements of ISA ever since its inception in 2015.

When the Alliance was co-founded by India and France five and a half years ago, it was announced as a new political idea. Since then, about 96 countries have signed the framework agreement of the solar alliance. So, the first great achievement of the solar alliance is that it has become truly international. The second is that initially it started off as a grouping of countries between the Tropic of Cancer and the Tropic of Capricorn. Now any country which is a member of United Nations can have ISA's membership. Now countries like Germany, Denmark, Netherlands are joining us.

The ISA has taken foundational steps to transition from a "political platform" into a "multilateral institution". The ISA has been working on country-level investment ecosystem analysis through its Ease of Doing Solar Report and aggregating a pipeline of solar projects in LDCs and SIDS member countries.

Q What about China, Pakistan and the US?

We welcome all the countries to join as members of the solar alliance.

Q Do you think banking industry and other financial institutions are also supporting entrepreneurs who want to set up solar plants?

This is a mixed story. There are some institutions which strongly support investment in renewable energy, including solar. I mean, obviously there are organisations which only invest in green energy such as Indian Renewable Energy Development Agency (IREDA) and Tata Cleantech Capital. Yet, for many organisations, it is a challenge because they have not yet changed their risk assessment methodology, which is very different for a renewable energy project vis-a-vis a fossil fuel project. Many financial institutions are still in the process of effecting a policy change in this regard.

The ISA, on its part, has been training bankers from developing countries to access risk in solar projects and provide financing to entrepreneurs. So far, we have provided training to bankers from 41 countries.

Q Do you think that five years from now most of the objectives of this alliance will be met?

Our main goal in the next five years is to enable solar projects to come up in every part of the world. Secondly, we want the world to benefit from solar power at lower prices. What this will enable is that solarisation will become the political priority of countries.

Q Would you like to highlight some of your initiatives ever since you took charge?

This organisation came of age due to my predecessor's hard work. We got all the countries to be part of it. We were able to start off projects in different parts of the world. Consequently, countries started seeing the ISA as their partner in solar development. Now we would like to create a facility through which lower cost financing can become available to all countries. Secondly, we have started the process of updating the advances in solar technology, solar investments, and solar markets. The third thing that we are focusing is capacity building. And this is not just about people who will design solar plants, it's also about bankers, regulators and policy-makers. Lastly, we help set up first solar projects, particularly in the least developed countries, in small islands, developing states, so that people see the benefits that solar provides. These projects serve as the agents for changing policies and processes. Our goal is to make solar the preferred energy option across the world.

Q Do you think India will be able to acquire its status as a leader in this initiative?

We would like that by 2030, a trillion dollar flows in this sector. That's the only way that we can ensure that we have a solar, carbon-free future instead of a fossil fuel future. What we need to do is to find a convergence between the national development needs and the global priorities.

Q I think solar energy has also reinforced the sense of responsibility in thermal power organisations to produce purer coal.

Yes, the fossil fuel sector is looking at being environmentally as well as economically efficient. We will see coal use increasing its existing capacity but after some years coal power plants will see a decline. We are, in fact, looking at a thirty years timeline for solar to be the energy source of choice for people.

COVER STORY

IBC

India's Fallen Billionaires

How a dozen leading Indian businessmen lost their crown jewels to unsustainable debt

BY NEVIN JOHN
ILLUSTRATION BY RAJ VERMA

• • • • • • • • •

4,300

Number of companies taken to NCLT for loan default